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C O N F I D E N T I A L SECTION 01 OF 02 LAHORE 000291

SIPDIS

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TAGS: ECON PGOV ENRG PK ETRD

SUBJECT: BT COTTON WILL NOT BE QUICK FIX FOR PUNJAB'S TEXTILES, WHICH
CONTINUE TO SUFFER

REF: ISLAMABAD 2633

CLASSIFIED BY: Bryan Hunt, Principal Officer, Consulate Lahore,
U.S. Department of State.

REASON: 1.4 (e)

¶11. (C) Summary: Leadership of the All Pakistan Textile Mills Association (Punjab Zone) told Poleconoff October 17 that the global crisis has resulted in a 15-20 percent drop in exports during the last three months. Moreover, the lack of bank liquidity has constricted capital, making it difficult for mills to purchase cotton. They estimated that the mills have shut 30 percent of their spindles, and 80 percent of the mills in Punjab operate at a loss. While the mill owners hoped that the introduction of BT cotton, which contains bacillus thuringiensis bacteria to make the crops more resistant to insects, would stimulate the cotton and textile industries, Monsanto Country Manager Amir Mirza cautioned PO in an October 20 meeting that even if it could introduce BT cotton by January 2009, the seeds would not be widely available until the 2011 growing season.
End summary.

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Global Crisis Impacts Already Troubled Textile Industry
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¶12. (SBU) Akhbar Sheikh, Chairman of the All Pakistan Textile Mills Association (APTMA) Punjab Zone, told Poleconoff October 17 that the downturn in the U.S. and Europe have hit Punjab's textile industry. He estimated that in the last three months exports have dropped 15-20 percent because consumers have started to defer purchases on bedding, knitwear and other non-priority goods. The global crisis has also constricted the availability of cash, Sheikh continued. He related that banks have refused to loan to mill owners, who need to buy more cotton. APTMA Secretary Anis ul Haq pointed out that because much of Pakistan's cotton imports come from the U.S. (which provided 627,953 bales to Pakistan in 2006-07, second only to cotton imports from India), American cotton growers will see likely see far fewer orders from Pakistani mills. Likewise, orders for machinery, which tend to come from Georgia, will also drop because of a lack of credit, ul Haq predicted.

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Electricity and Gas Too Expensive and Unreliable
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¶13. (SBU) Compounding the problems generated by the global crisis, the energy shortage in Punjab has also raised costs, Sheikh noted. Although the power providers have attempted to exempt textile mills from loadshedding, Sheikh reported that outages have reached levels of five-to-six hours per day, resulting in mills missing clients' targets. Those mills that converted to gas (about 70 percent of the capacity) also face

cutoffs approximately 90 days of the year, most recently 13-19 October 2008, Sheikh complained. The government has also not decreased gas prices to reflect the lower costs of oil and gas worldwide, he continued, while commodity prices have shot up.

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Several Barriers Exist for Exporters
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¶ 14. (SBU) Senior Vice President of APTMA Raja Nazir said that the poor law-and-order situation has prevented buyers from making the journey to Pakistan, which he believed offers highly competitive prices. Ul Haq added that difficulties in obtaining visas have also made travel to the U.S. infeasible. He thought that the GOP has done a poor job of marketing Pakistani textiles and negotiating market access, and he singled out India, from which Pakistan imports 25 percent of its cotton, as a particularly closed market.

¶ 15. (SBU) As a result of the crisis, Chairman Sheikh estimated that the mills have shut 30 percent of the spindles available (spinning capacity normally occurs around 85 percent). The mills have subsequently laid off workers, prompting several protests in southern Punjab in mid-October. He predicted that big mills will survive the current quagmire, but many small mills will go out of business in the near future. However, he hoped that public-private partnerships, USAID-led projects, and the imminent introduction of BT cotton would help the textile industry recover.

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Monsanto Pursues BT Cotton Entry With or Without Government Buy-In
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¶ 16. (C) In an October 20 meeting with PO, Monsanto Country Manager Amir Mirza described his firm's strategy to introduce BT

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Cotton in Pakistan while protecting the seed's intellectual property. Mirza has started separate negotiations with the Punjab province government and the federal government to determine a mechanism in which the government would pay Monsanto for the use of the technology according to the acreage planted. Although he worried about the provincial and federal government's ability to reimburse Monsanto, he surmised that they could leverage a tax on land owners, growers or millers to pay for B T cotton. If the government refused to cooperate, Mirza proposed that Monsanto could sell BT cotton directly to private growers, but this option raises concerns about leakage of the technology. He also thought that a hybrid system combining government-controlled distribution with private sector pricing was possible.

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Best Case Scenario Has Several Years Until B T Cotton Introduction
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¶ 17. (C) Mirza stressed that even if Monsanto signed an agreement today, the global shortage of seed stocks would mean that B T cotton widely available in Pakistan in 2011 after small trials in 2009 and 2010. He also recognized that Monsanto must find a way to price the seeds in Pakistan on par with those in India. Finally, he related, Monsanto must find a way for the government, whether provincial or federal, to have an interest in preventing government research institutes from stealing the B T cotton technology, although once B T cotton enters the Pakistan market, Mirza estimated, it would increase yields by 30-40 percent.

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Comment: No Quick Fix in Textiles
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¶ 18. (C) The same multiple factors that have contributed to the dismal state of Pakistan's textile industry are those that have

hurt every Pakistani industry: high commodity prices, unreliable and expensive energy, lack of security and a cash crunch. But with a nine percent share in the GDP, mill layoffs and shutdowns would compound the problems already experienced in southern Punjab, fueling a greater breakdown in law-and-order. A significant rise in unemployment coupled with a rise in commodity prices could provide a pool of potential recruits for extremist groups that have the funding to provide basic necessities. Ensuring that these desperate workers, whose numbers will surely increase, have access to food, shelter, and a livelihood will help avoid a breakdown in the stability of Pakistan's last stable province.HUNT